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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 005186

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TREASURY FOR OASIA/A DEMAMPOULUS

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SUBJECT: JORDAN'S OIL SUPPLY NEEDS

REF: AMMAN 4835

Classified By: David Hale, Charge d'Affairs, ai. Reasons 1.5 (b) (d)

1. (c) Summary. The Jordanian Oil Ministry believes that Kuwait has agreed to continue supplying Jordan with 25,000 barrels of crude oil per day through September, with Kuwait refining the crude on behalf of Jordan. Along with the 50,000 bpd Saudi oil grant -- which the Jordanians expect to continue into 2004 -- plus UAE cash transfers, this should be sufficient for Jordan to meet its petroleum supply needs this year. Progress is also being made on procuring oil from Iraq and increasing natural gas consumption. How Jordan will meet its oil needs in 2004 remains a question, but its currently strong finances put the country in a good position to manage a transition to paying market prices. End Summary.

Kuwait Grant Through September

2. (c) The number two official in the Ministry of Energy, Secretary General Khalidoun Qteishat, told us on August 14

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that recent Jordan-Kuwait meetings resulted in an oral agreement that Kuwait would extend to its 25,000 bdp crude oil grant by three months, i.e. through September. Since the Kuwaitis were unable to provide the cash equivalent of the oil, as requested by Jordan, they further agreed that Kuwait would refine this amount on behalf of Jordan, with any excess over Jordan's needs being sold by Kuwait with the proceeds going to Jordan. (This is necessary since the properties of Kuwaiti oil make it difficult to refine at Jordan's Zarqa refinery.) Jordan pays for transportation of the refined products from Kuwait to Jordan. While these generalities were agreed, Qteishat said the practicalities remained murky to the Jordanians. They had recently transmitted a request for refined products to Kuwaiti counterparts and are waiting for a response.

Saudi Grant Likely to Extend into 2004

3. (c) Deliveries of Saudi Arabia's 50,000 bdp oil grant continue to go smoothly, Qteishat said. The Zarqa refinery has no problem refining Saudi oil. Delivery is made at Yanbu, with Jordan picking up transportation costs to Aqaba. Qteishat said it had been agreed that the grant would continue through the end of the year. He thought there was a 99% probability that it would be extended into 2004, but noted that this was also based on oral promises; Jordan has nothing in writing.

UAE Cash Continues to Flow

4. (c) The balance of Jordan's 90-100,000 bpd crude oil needs are being met by crude purchases at Yanbu at the market price. As in the case of Kuwait, the UAE grant of the cash equivalent of 25,000 bpd had been extended through September. Qteishat understood that this grant was being used for the purchases at Yanbu, but said the Finance Ministry was handling these transactions.

Progress Made on Iraq Purchases

5. (c) Following up on recent meetings with Iraq's oil ministry (reftel), Qteishat said Jordan had recently sent to Baghdad a request for the purchase of crude and refined products. He said payment would be at the standard market price Iraq charges all other buyers. Delivery would be to Aqaba by ship from Mina al-Bakr. Jordan would prefer to resume truck deliveries because of the lower cost, port congestion in Aqaba, and for environmental reasons, but the Iraqis, he said, are currently unable to comply for technical reasons. (Qteishat thought this had to do with damaged loading platforms.)

Natural Gas Coming On-line

16. (c) Finally, Qteishat said Egyptian natural gas deliveries to Aqaba had started following the July 27 inauguration of the new pipeline. Gas is now being used to drive one of the six turbines. All six should be gas fed by year end. According to Qteishat, this would not reduce Jordan's crude oil import needs noticeably, since the same amount of crude would be required to refine into other products. However, it would result in a surplus of heavy fuel oil that Jordan would export. This would create a net financial savings for Jordan, which, he said, was difficult to estimate given the complex formula used to price the gas. (IMF sources have told us the actual savings would be meaningful, but not large in the context of Jordan's balance of payments.)

Comment

17. (c) Comment: If implemented as the Jordanians believe, these arrangements would seem to meet Jordan's crude oil needs through the end of the year. As the Central Bank governor also observed to the charge August 14, the big question mark was 2004. The governor said that he and his colleagues were planning on the assumption that Jordan would have to pay full market prices next year. He thought, however, that Jordan was in a good financial position to be able to manage this transition, thanks, in part, to U.S. assistance.

18. (u) Baghdad minimize considered.
HALE